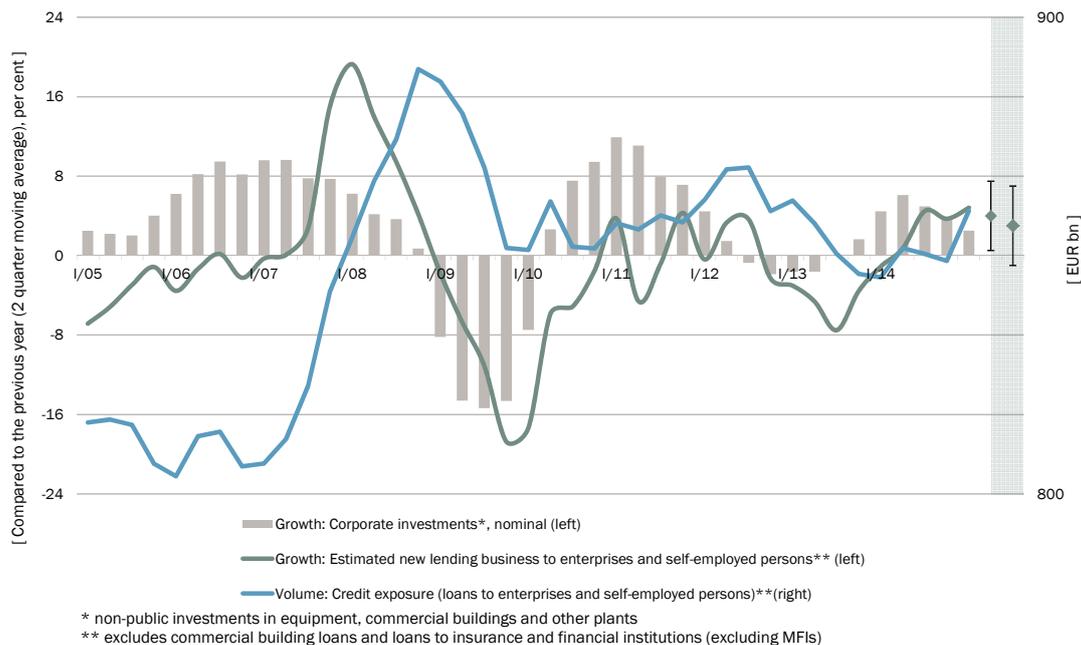


KfW Credit Market Outlook June 2015

New lending business: Companies snatch up loans

- ***New lending increased in Q1 2015 by 4.8 % year-on-year.***
- ***Momentum may ease somewhat, but will remain strong.***



According to KfW estimates, new lending from German banks to companies and the self-employed increased by 4.8 % year-on-year in the first quarter of 2015. Yet again, long-term loans with a duration of more than five years experienced particularly strong growth. Favourable conditions should allow the upward trend in the credit market to continue. Correspondingly, we expect new lending business to grow by about 4 % in the second quarter compared to the same period in the previous year (two quarter moving average).

Low interest rates make longer terms attractive for large companies

After a long period of weakness, the corporate credit market has been growing at a respectable pace since autumn 2014. This is due to increased demand for long-term loans. Banks believe this trend is likely to continue (see Bank Lending Survey for Germany). They also anticipate that large companies' demand for credit will gather pace.

The extremely favourable supply situation points very much in this direction. The Ifo credit hurdle tumbled from one record low to the next and stood at just 15.7% in May. Only one in seven of companies polled report that bank lending is restrictive – and that figure is not even one in ten for large companies. Lending conditions improved further in the recent quarter, driven by competition amongst banks.

Nevertheless, the most important reason for the revival in new lending is probably low interest rates. For loans with durations exceeding five years, German banks were demanding an average of just 1.75% in March 2015 – in other words a further 100 basis points lower than in the previous year. So despite a financial position that remains excellent and only moderate growth in corporate investment, loans are increasingly being utilised for financing.

Conclusion and prospects:

The German economy will grow at a respectable rate this year. Companies are investing more again. However, if we are to see an end to chronically weak investment, this trend has to continue and gain strength. The favourable supply situation is providing the right conditions for this revitalised new lending business to continue. German banks have adequate supplies of liquidity, due in no small measure to the ECB's bond repurchase programme. However, the developments surrounding Greece harbour the risk that the resultant uncertainty could adversely impact companies' willingness to invest.

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Appendix

The structure of the KfW Credit Market Outlook:

New lending business is determined by adding to the quarterly variation of existing loans (data from the Deutsche Bundesbank on loans extended by German banks to domestic enterprises and self-employed professionals without housing construction loans and without loans to financial institutions and the insurance industry) a simulated on-schedule repayment behaviour (per quarter). The publication is presented in the form of the thus determined new lending business variation rate against the prior-year quarter, with the variation rate expressed as the moving two-quarter average.

The forecast of new lending business is performed on the basis of a VAR model in which the GDP, the twelve-month money market rate and business investments are taken into account as the most important explanatory variables. Business investments comprise all non-public investment in equipment, industrial buildings and other facilities. They are calculated by KfW quarterly on the basis of the national accounts data from the Federal Statistical Office and, using leading financial and economic indicators, are projected into the future with the aid of a vector autoregressive model.